

FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
LOGAN COUNTY HOSPITAL
DECEMBER 31, 2014 AND 2013

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LOGAN COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended December 31, 2014 and 2013

Our discussion and analysis of the financial performance of Logan County Hospital provides a narrative overview of the Hospital's financial activities for the years ended December 31, 2014 and 2013. Please read it in conjunction with the accompanying financial statements.

Financial highlights

The Hospital's net position decreased during 2014 and 2013 with a \$445,254 or 7.3 percent decrease in 2014 and a \$1,183,453 or 16.2 percent decrease in 2013.

The Hospital reported operating losses of \$1,123,272 and \$1,514,522 for 2014 and 2013, respectively.

Using these financial statements

The Hospital's financial statements consist of three statements - a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by or for the benefit of the Hospital, and resources restricted for specific purposes by contributors, grantors, and other outside parties.

One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. For purposes of these two statements, revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in it. The Hospital's net position - the difference between assets and liabilities - may be thought of as one way to measure its financial health, or financial position. Over time, increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. Consideration must also be given to other nonfinancial indicators, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors, to assess the overall health of the Hospital.

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?", "What was cash used for?", and "What was the change in cash balance during the reporting period?"

LOGAN COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended December 31, 2014 and 2013

Assets, liabilities, and net position

The Hospital's statements of net position as of the end of each of the last three years are summarized as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Assets			
Current assets	\$ 2,262,780	\$ 2,817,946	\$ 4,134,769
Assets limited as to use	344,184	231,384	61,621
Capital assets, net	4,982,842	4,824,179	5,200,785
Other assets	<u>15,893</u>	<u>15,893</u>	<u>15,893</u>
Total assets	<u>\$ 7,589,806</u>	<u>\$ 7,889,402</u>	<u>\$ 9,413,068</u>
Liabilities			
Current liabilities	\$ 1,381,641	\$ 1,296,039	\$ 1,504,155
Long-term obligations	<u>518,164</u>	<u>458,108</u>	<u>590,205</u>
Total liabilities	<u>\$ 1,899,805</u>	<u>\$ 1,754,147</u>	<u>\$ 2,094,360</u>
Net position	<u>\$ 5,690,001</u>	<u>\$ 6,135,255</u>	<u>\$ 7,318,708</u>

In aggregate, the Hospital's unrestricted cash and invested cash (including limited use assets held by the Board of Trustees) total \$436,734 and \$398,301 as of December 31, 2014 and 2013, respectively. These represent 13 days and 12 days, respectively, of average cash expenses during each of the years then ended. The median value for similar hospitals is 63 days.

The Hospital's net patient accounts receivable were 81 percent of current assets as of December 31, 2014, 76 percent as of December 31, 2013, and 73 percent as of December 31, 2012. The average number of days of net patient revenue represented by them was 59 days, 74 days, and 105 days as of December 31, 2014, 2013, and 2012, respectively. The median value for similar hospitals is 59 days.

At the end of 2014, the Hospital has \$4,982,842 invested in capital assets, net of accumulated depreciation. This is \$158,663 more than at the end of 2013. The value of new capital assets placed in service totaled \$612,552, \$47,587, and \$4,152,560 during 2014, 2013, and 2012, respectively.

The Hospital financed \$284,987 and \$14,000 of equipment acquisitions with capital lease obligations during 2014 and 2013, respectively. The Hospital also financed \$23,180 of equipment acquisitions with long-term loans during 2014.

The Hospital's net position decreased during 2014 and 2013 (a decrease of \$445,254 or 7.3 percent during 2014 and \$1,183,453 or 16.2 percent during 2013). The percentage of total assets financed with net position, or equity, was 74.8 percent, 77.8 percent, and 77.8 percent as of December 31, 2014, 2013, and 2012, respectively.

LOGAN COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended December 31, 2014 and 2013

Operating results and changes in net position

The Hospital's operating results and changes in net position for each of the last three years are summarized as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating revenues	\$ 11,709,315	\$ 11,013,729	\$ 10,910,535
Operating expenses	<u>12,832,587</u>	<u>12,528,251</u>	<u>11,440,177</u>
Operating loss	(1,123,272)	(1,514,522)	(529,642)
Interest expense	(31,122)	(28,789)	(28,791)
County tax proceeds	497,172	271,603	268,397
Other nonoperating revenues	35,905	28,405	50,701
Capital grants and contributions	<u>176,063</u>	<u>59,850</u>	<u>4,100,784</u>
Change in net position	<u>\$ (445,254)</u>	<u>\$ (1,183,453)</u>	<u>\$ 3,861,449</u>

The first, and most significant, component of the overall change in the Hospital's net position is its operating income or loss - generally, the difference between net patient service revenue and the expenses incurred to perform those services. The large increase in total net position during 2012 is due primarily to capital contributions.

Gross and net patient service revenue for the past three years are analyzed as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Inpatient services	\$ 2,804,710	\$ 2,924,821	\$ 3,498,683
Nursing facility services	2,090,803	2,136,757	2,163,157
Outpatient services	8,202,295	8,505,748	8,122,252
Rural health clinic services	<u>1,906,416</u>	<u>1,692,201</u>	<u>1,289,395</u>
Gross patient service revenue	15,004,224	15,259,527	15,073,487
Contractual adjustments	(3,486,462)	(4,377,779)	(4,259,784)
Medicaid DSH payments	143,523	144,448	175,141
Provision for bad debts	<u>(399,963)</u>	<u>(441,232)</u>	<u>(419,357)</u>
Net patient service revenue	<u>\$ 11,261,322</u>	<u>\$ 10,584,964</u>	<u>\$ 10,569,487</u>

Gross revenues from inpatient services decreased 4.1 and 16.4 percent during 2014 and 2013, respectively. Total patient days increased by 5.0 percent during 2014 and decreased by 19.8 percent during 2013. Charge rate increases and changes in the mix of services provided accounted for much of the rest of the variation in gross revenues from inpatient services during each of those years.

LOGAN COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended December 31, 2014 and 2013

Gross revenues from nursing facility services rendered at the Logan County Manor decreased 2.2 percent and decreased 1.2 percent during 2014 and 2013, respectively. Those changes were driven by changes in the number of residents and by increases in charge rates. Resident days at the Manor decreased by 7.7 percent during 2014 and decreased by 0.4 percent during 2013. Average room charge rate for the Manor increased 4.9 percent during 2014, with no changes to the Manor charge rates during 2013. Gross revenues from outpatient services decreased by 3.6 percent during 2014 and increased by 4.7 percent during 2013 as a result of changes in outpatient volumes.

The Hospital has agreements with various third-party payors that provide for payments to the Hospital at amounts different from its established charge rates. These differences are referred to as contractual adjustments. As a percentage of gross patient service revenue they were 22.3 percent, 27.7 percent, and 27.1 percent during 2014, 2013, and 2012, respectively. These values are below those for similar hospitals (the median value is 39.6 percent) because only minimal adjustments are incurred for nursing facility services and those services account for approximately one-seventh of the Hospital's gross revenues. The Hospital's contractual adjustments for hospital services only were 27.5 percent, 34.4 percent, and 33.5 percent of gross revenue during 2014, 2013, and 2012, respectively.

The provision for bad debts represented 2.7 percent, 2.9 percent, and 2.8 percent of gross patient service revenue during 2014, 2013, and 2012, respectively. The Hospital's bad debt percentages are well below those for similar hospitals.

Employee salaries and wages increased by \$358,358 or 5.4 percent during 2014 and by \$826,320 or 14.1 percent during 2013. These changes are functions of changes in the number of employees and in pay rates. Total full-time equivalent employees increased by 2.8 percent during 2014 and increased 11.9 percent during 2013. Average pay rates increased by 2.8 percent and 1.9 percent during 2014 and 2013, respectively.

Supplies and other expenses decreased by \$247,062 or 6.8 percent during 2014, and by \$131,313 or 3.5 percent during 2013. These percentage changes in supplies and other expenses are consistent with the patient volume gains and losses experienced by the Hospital and the general rate of health care inflation.



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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
Logan County Hospital

We have audited the accompanying financial statements of the business-type activity of Logan County Hospital (the Hospital) as of and for the years ended December 31, 2014 and 2013, which collectively comprise the Hospital's basic financial statements as listed in the table of contents, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express our opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the business-type activity of Logan County Hospital, as of December 31, 2014 and 2013, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 1 through 4 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The supplemental information presented on pages 23 through 25 is for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects in relation to the financial statements as a whole.


Topeka, Kansas
April 10, 2015

FINANCIAL STATEMENTS

LOGAN COUNTY HOSPITAL
STATEMENTS OF NET POSITION
December 31,

ASSETS

	<u>2014</u>	<u>2013</u>
CURRENT ASSETS		
Cash	\$ 92,550	\$ 166,917
Patient accounts receivable	1,826,368	2,139,342
County tax proceeds receivable	12,019	5,282
Other receivables	9,672	6,808
Estimated third-party payor settlements	3,330	210,000
Inventories	256,567	241,738
Prepaid expenses	<u>62,274</u>	<u>47,859</u>
Total current assets	2,262,780	2,817,946
ASSETS LIMITED AS TO USE		
Held by Board of Trustees	344,184	231,384
CAPITAL ASSETS - NET	4,982,842	4,824,179
OTHER ASSETS		
Advances to medical students	<u> </u>	<u>15,893</u>
Total assets	<u>\$ 7,589,806</u>	<u>\$ 7,889,402</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET POSITION

	<u>2014</u>	<u>2013</u>
CURRENT LIABILITIES		
Current maturities of long-term obligations	\$ 202,790	\$ 145,672
Accounts payable	276,770	126,579
Estimated third-party payor settlements	24,127	26,865
Accrued salaries, wages, and benefits	408,993	451,460
Unearned revenue	28,352	44,865
Accrued compensated absences	433,441	492,405
Accrued interest payable	<u>7,168</u>	<u>8,193</u>
Total current liabilities	1,381,641	1,296,039
LONG-TERM OBLIGATIONS, less current maturities	<u>518,164</u>	<u>458,108</u>
Total liabilities	<u>1,899,805</u>	<u>1,754,147</u>
NET POSITION		
Invested in capital assets - net of related debt	4,261,888	4,220,399
Unrestricted	<u>1,428,113</u>	<u>1,914,856</u>
Total net position	<u>5,690,001</u>	<u>6,135,255</u>
Total liabilities and net position	<u>\$ 7,589,806</u>	<u>\$ 7,889,402</u>

LOGAN COUNTY HOSPITAL
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Year ended December 31,

	<u>2014</u>	<u>2013</u>
Operating revenues		
Net patient service revenue	\$ 11,261,322	\$ 10,584,964
Other revenue	<u>447,993</u>	<u>428,765</u>
Total operating revenues	<u>11,709,315</u>	<u>11,013,729</u>
Operating expenses		
Salaries and wages	7,056,485	6,698,127
Employee benefits	1,943,263	1,781,875
Supplies and other	3,378,950	3,626,012
Depreciation and amortization	<u>453,889</u>	<u>422,237</u>
Total operating expenses	<u>12,832,587</u>	<u>12,528,251</u>
Operating loss	<u>(1,123,272)</u>	<u>(1,514,522)</u>
Nonoperating revenues		
County tax proceeds	497,172	271,603
Interest income	1,203	3,057
Interest expense	(31,122)	(28,789)
Noncapital grants and contributions	26,385	19,303
Oil royalties	7,817	8,001
Gain (loss) on disposal of equipment	<u>500</u>	<u>(1,956)</u>
Total nonoperating revenues	<u>501,955</u>	<u>271,219</u>
Excess of expenses over revenues before capital grants and contributions	(621,317)	(1,243,303)
Capital grants and contributions	<u>176,063</u>	<u>59,850</u>
Change in net position	(445,254)	(1,183,453)
Net position at beginning of year	<u>6,135,255</u>	<u>7,318,708</u>
Net position at end of year	<u>\$ 5,690,001</u>	<u>\$ 6,135,255</u>

The accompanying notes are an integral part of these statements.

LOGAN COUNTY HOSPITAL
STATEMENTS OF CASH FLOWS
Year ended December 31,

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities		
Receipts from and on behalf of patients	\$ 11,760,236	\$ 11,689,260
Payments to or on behalf of employees	(9,101,179)	(8,596,382)
Payments for supplies and services	(3,258,003)	(3,732,095)
Other receipts and payments	<u>462,501</u>	<u>429,255</u>
Net cash used by operating activities	<u>(136,445)</u>	<u>(209,962)</u>
Cash flows from noncapital financing activities		
County tax proceeds	490,435	273,489
Noncapital grants and contributions	<u>26,385</u>	<u>19,303</u>
Net cash provided by noncapital financing activities	<u>516,820</u>	<u>292,792</u>
Cash flows from capital and related financing activities		
Acquisition of capital assets	(612,552)	(47,587)
Capital grants and contributions	176,063	59,850
Proceeds from the sale of capital assets	500	
Long-term obligations incurred	308,167	14,000
Payments on long-term obligations	(190,993)	(144,004)
Interest paid	<u>(32,147)</u>	<u>(29,760)</u>
Net cash used by capital and related financing activities	<u>(350,962)</u>	<u>(147,501)</u>
Cash flows from investing activities		
Change in assets limited as to use	(112,800)	(169,763)
Interest received	1,203	3,057
Oil royalties	<u>7,817</u>	<u>8,001</u>
Net cash used by investing activities	<u>(103,780)</u>	<u>(158,705)</u>
Net change in cash and cash equivalents	(74,367)	(223,376)
Cash and cash equivalents at beginning of year	<u>166,917</u>	<u>390,293</u>
Cash and cash equivalents at end of year	<u>\$ 92,550</u>	<u>\$ 166,917</u>

The accompanying notes are an integral part of these statements.

LOGAN COUNTY HOSPITAL
STATEMENTS OF CASH FLOWS - CONTINUED
Year ended December 31,

	<u>2014</u>	<u>2013</u>
Reconciliation of operating loss to net cash used by operating activities		
Operating loss	\$ (1,123,272)	\$ (1,514,522)
Amortization of advances to medical students considered operating activity	15,893	
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation and amortization	453,889	422,237
Provision for bad debts	399,963	441,232
Changes in		
Patient accounts receivable	(86,989)	453,667
Inventories and other current assets	(32,108)	65,379
Accounts payable and accrued expenses	32,247	(236,103)
Estimated third-party payor settlements	<u>203,932</u>	<u>158,148</u>
Net cash used by operating activities	<u>\$ (136,445)</u>	<u>\$ (209,962)</u>

The accompanying notes are an integral part of these statements.

LOGAN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES

1. Reporting entity

Logan County Hospital (the Hospital) is a county hospital located in Oakley, Kansas. The Hospital is operated under Kansas statutes as an entity legally separate from Logan County (the County). Its Board of Trustees is appointed by the Board of County Commissioners of the County. The Hospital can sue and be sued, and can buy, sell, or lease real property. The County annually levies a tax for the Hospital. Bond issuances must be approved by the County. The Hospital is a discretely presented component unit of the County for financial statement purposes.

2. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

3. Basis of accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

4. Cash and cash equivalents

The Hospital considers all cash and invested cash to be cash equivalents, excluding any assets limited as to use.

5. Allowance for bad debts

The Hospital provides for accounts receivable that could become uncollectible in the future by establishing an allowance to reduce the carrying value of such receivables to their estimated net realizable value. The Hospital estimates this allowance based on the aging of its accounts receivable and its historical collection experience for each type of payor.

6. Supplies

Supplies inventories are stated at cost as determined on the first-in, first-out method.

LOGAN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2014 and 2013

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

7. Assets limited as to use

Assets limited as to use include tax appropriations received from the County that have been set aside by the Board of Trustees for replacement of capital assets or for purchase of additional capital assets, over which the Board retains control and may at its discretion subsequently use for other purposes.

8. Capital assets

Capital assets (including assets recorded as capital leases) are stated at cost. Depreciation and amortization of capital assets are provided on the straight-line method over the estimated useful lives of the assets. The estimated lives used are generally in accordance with the guidelines established by the American Hospital Association.

The costs of maintenance and repairs are charged to operating expenses as incurred. The costs of significant additions, renewals, and betterments to depreciable properties are capitalized and depreciated over the remaining or extended estimated useful lives of the item or the properties. Gains and losses on disposition of capital assets are included in nonoperating revenues and expenses.

9. Grants and contributions

From time to time, the Hospital receives grants and contributions from individuals and private organizations. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

10. Net position

The net position of the Hospital is classified into two components. "Net position invested in capital assets net of related debt" consists of capital assets net of accumulated depreciation reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. "Unrestricted net position" is the remaining net position that does not meet the definition of the other component of net position.

11. Operating revenues and expenses

The Hospital's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, which is the Hospital's principal activity. Nonexchange revenues, including noncapital grants and contributions, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

LOGAN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2014 and 2013

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

12. Net patient service revenue

Net patient service revenue is reported at established charges with deductions for discounts, charity care, contractual adjustments, and provision for bad debts, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

13. Charity care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

14. Income taxes

The Hospital is exempt from federal income taxes pursuant to Sections 115 and 501(a) of the Internal Revenue Code.

15. Subsequent events

The Hospital has evaluated subsequent events through April 10, 2015, which is the date the financial statements were available to be issued.

NOTE B - REIMBURSEMENT PROGRAMS

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established charge rates. The amounts reported on the statement of net position as estimated third-party payor settlements consist of the estimated differences between the contractual amounts for providing covered services and the interim payments received for those services. A summary of the payment arrangements with major third-party payors follows:

Medicare - The Hospital is a critical access hospital for purposes of the Medicare program and is paid for services rendered to Medicare beneficiaries under various cost reimbursement methodologies. The Hospital is paid for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits or reviews thereof by the Medicare administrative contractor. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Hospital's Medicare cost reports have been audited or reviewed by the Medicare administrative contractor through December 31, 2012.

LOGAN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2014 and 2013

NOTE B - REIMBURSEMENT PROGRAMS - Continued

Medicaid - Hospital services rendered to all Medicaid program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Nursing facility services are paid at prospectively determined per diem rates set annually on the basis of cost information supplied by nursing facilities for preceding calendar years.

The Kansas Medicaid program provides additional payments to qualifying providers under a reimbursement formula that incorporates uncompensated care costs, Kansas Medicaid utilization, public support of the Hospital, and other factors. The Hospital qualified for these disproportionate share payments during both 2014 and 2013.

Blue Cross and Blue Shield - All services rendered to patients who are insured by Blue Cross and Blue Shield are paid on the basis of prospectively determined rates per discharge or discounts from established charges.

The Hospital has also entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rate.

A summary of gross and net patient service revenue follows:

	<u>2014</u>	<u>2013</u>
Gross patient service revenue	\$ 15,004,224	\$ 15,259,527
Deductions from patient service revenue		
Third-party contractual adjustments	(3,486,462)	(4,377,779)
Medicaid disproportionate share payments	143,523	144,448
Provision for bad debts	<u>(399,963)</u>	<u>(441,232)</u>
Net patient service revenue	<u>\$ 11,261,322</u>	<u>\$ 10,584,964</u>

Revenue from the Medicare and Medicaid programs accounted for approximately 42 percent and 14 percent, respectively, of the Hospital's net patient service revenue during 2014, and 43 percent and 18 percent, respectively, of the Hospital's net patient service revenue during 2013. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

LOGAN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2014 and 2013

NOTE C - DEPOSITS WITH FINANCIAL INSTITUTIONS

Kansas statutes authorize the Hospital, with certain restrictions, to deposit or invest in open accounts, time deposits, certificates of deposit, repurchase agreements, U.S. Treasury Bills and Notes, and the State Treasurer's investment pool. Kansas statutes also require that collateral be pledged for bank deposits with a fair market value equal to 100 percent of the uninsured amounts, and must be assigned for the benefit of the Hospital.

At December 31, 2014, the carrying amount of the Hospital's bank deposits was \$436,634 and the bank balances were \$572,998. Of the bank balances, \$479,203 was covered by federal depository insurance, and \$93,795 was covered by collateral held by a third-party bank, but not registered in the Hospital's name.

The Hospital's bank deposits are included in the financial statements under the following categories:

Cash	\$ 92,450
Assets limited as to use	<u>344,184</u>
Total bank deposits	<u>\$ 436,634</u>

NOTE D - PATIENT ACCOUNTS RECEIVABLE

Patient accounts receivable consist of the following:

	<u>2014</u>	<u>2013</u>
Patient accounts receivable	\$ 2,431,977	\$ 2,669,000
Less allowance for bad debts	<u>(605,609)</u>	<u>(529,658)</u>
	<u>\$ 1,826,368</u>	<u>\$ 2,139,342</u>

NOTE E - ASSETS LIMITED AS TO USE

The composition of assets limited as to use is as follows:

	<u>2014</u>	<u>2013</u>
Cash	\$ 344,184	\$ 171,871
Certificates of deposit	<u> </u>	<u>59,513</u>
	<u>\$ 344,184</u>	<u>\$ 231,384</u>

LOGAN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2014 and 2013

NOTE F - CAPITAL ASSETS

Capital asset additions, retirements, and balances are as follows:

	2014			
	<u>Beginning balance</u>	<u>Additions</u>	<u>Retirements and transfers</u>	<u>Ending balance</u>
Land	\$ 53,181	\$ -	\$ -	\$ 53,181
Land improvements	74,230			74,230
Buildings	5,820,014	249,261		6,069,275
Leasehold improvements	651,506	23,180		674,686
Fixed equipment	986,363	10,931		997,294
Major movable equipment	<u>2,097,879</u>	<u>329,180</u>		<u>2,427,059</u>
Totals at historical cost	<u>9,683,173</u>	<u>612,552</u>	<u>-</u>	<u>10,295,725</u>
Less accumulated depreciation and amortization				
Land improvements	71,663	1,284		72,947
Buildings	2,055,440	240,221		2,295,661
Leasehold improvements	229,104	35,298		264,402
Fixed equipment	863,184	16,540		879,724
Major movable equipment	<u>1,639,603</u>	<u>160,546</u>		<u>1,800,149</u>
	<u>4,858,994</u>	<u>453,889</u>	<u>-</u>	<u>5,312,883</u>
Capital assets, net	<u>\$ 4,824,179</u>	<u>\$ 158,663</u>	<u>\$ -</u>	<u>\$ 4,982,842</u>

	2013			
	<u>Beginning balance</u>	<u>Additions</u>	<u>Retirements and transfers</u>	<u>Ending balance</u>
Land	\$ 53,181	\$ -	\$ -	\$ 53,181
Land improvements	93,723		19,493	74,230
Buildings	5,854,669		34,655	5,820,014
Leasehold improvements	651,506			651,506
Fixed equipment	1,093,065		106,702	986,363
Major movable equipment	<u>2,871,768</u>	<u>47,587</u>	<u>821,476</u>	<u>2,097,879</u>
Totals at historical cost	<u>10,617,912</u>	<u>47,587</u>	<u>982,326</u>	<u>9,683,173</u>
Less accumulated depreciation and amortization				
Land improvements	89,872	1,284	19,493	71,663
Buildings	1,849,794	240,301	34,655	2,055,440
Leasehold improvements	193,992	35,112		229,104
Fixed equipment	952,022	15,510	104,348	863,184
Major movable equipment	<u>2,331,447</u>	<u>130,030</u>	<u>821,874</u>	<u>1,639,603</u>
	<u>5,417,127</u>	<u>422,237</u>	<u>980,370</u>	<u>4,858,994</u>
Capital assets, net	<u>\$ 5,200,785</u>	<u>\$ (374,650)</u>	<u>\$ 1,956</u>	<u>\$ 4,824,179</u>

LOGAN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2014 and 2013

NOTE F - CAPITAL ASSETS - Continued

The Hospital operates a nursing facility owned by the County under the name of Logan County Manor (the Manor). Certain equipment used to operate the Manor is also owned by the County. The Hospital incurs no rental expense for use of the property and equipment owned by the County. County-owned assets are excluded from the Hospital's financial statements. Historical cost and accumulated depreciation for such assets are summarized as follows:

	<u>2014</u>	<u>2013</u>
Land, building, and fixed equipment	\$ 309,187	\$ 309,187
Major movable equipment	<u>56,754</u>	<u>56,754</u>
	365,941	365,941
Less accumulated depreciation	<u>287,585</u>	<u>273,932</u>
County-owned property and equipment, net	<u>\$ 78,356</u>	<u>\$ 92,009</u>

NOTE G - EMPLOYEE HEALTH INSURANCE

Prior to January 1, 2014, the Hospital sponsored a self-insured employee health insurance plan. Effective January 1, 2014, the Hospital switched to a fully-insured health plan with Blue Cross and Blue Shield of Kansas. The estimated net health insurance claims payable related to the self-insured employee health insurance plan at December 31, 2014 and 2013, were \$0 and \$70,000, respectively.

LOGAN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2014 and 2013

NOTE H - LONG-TERM OBLIGATIONS

Long-term obligations are summarized as follows:

	<u>2014</u>	<u>2013</u>
Agreement with Logan County for financing of the Manor expansion (leasehold improvements), interest rate of 5.35%, with semiannual payments of principal and interest through 2018	\$ 249,057	\$ 306,334
Agreement with Fire Alarm Specialist for financing of the fire alarm system at the Manor, with monthly payments of principal through 2016	12,549	
Capital lease obligations, imputed interest rates from 3.15% to 4.50%, collateralized by equipment with an amortized cost of \$485,889	<u>459,348</u>	<u>297,446</u>
	720,954	603,780
Less current maturities	<u>202,790</u>	<u>145,672</u>
Long-term obligations less current maturities	<u>\$ 518,164</u>	<u>\$ 458,108</u>

The following is a summary of changes in long-term obligations:

	<u>Capital lease obligations</u>	<u>Agreement with Logan County</u>	<u>Agreement with Fire Alarm Specialist</u>	<u>Total long-term obligations</u>
Outstanding at January 1, 2013	\$ 373,118	\$ 360,666	\$ -	\$ 733,784
Obligations incurred	14,000			14,000
Payments on long-term obligations	<u>(89,672)</u>	<u>(54,332)</u>		<u>(144,004)</u>
Outstanding at December 31, 2013	297,446	306,334	-	603,780
Obligations incurred	284,987		23,180	308,167
Payments on long-term obligations	<u>(123,085)</u>	<u>(57,277)</u>	<u>(10,631)</u>	<u>(190,993)</u>
Outstanding at December 31, 2014	<u>\$ 459,348</u>	<u>\$ 249,057</u>	<u>\$ 12,549</u>	<u>\$ 720,954</u>

LOGAN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2014 and 2013

NOTE H - LONG-TERM OBLIGATIONS - Continued

The following is a yearly schedule of future minimum lease payments under capital lease obligations at December 31, 2014:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 135,236	\$ 15,490	\$ 150,726
2016	132,812	10,444	143,256
2017	111,799	5,770	117,569
2018	60,426	2,298	62,724
2019	<u>19,075</u>	<u>175</u>	<u>19,250</u>
Total minimum lease payments	<u>\$ 459,348</u>	<u>\$ 34,177</u>	493,525
Less amounts representing interest			<u>34,177</u>
Present value of net minimum lease payments			<u>\$ 459,348</u>

Scheduled annual debt service requirements on the agreements with Logan County and Fire Alarm Specialist are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 67,554	\$ 12,530	\$ 80,084
2016	69,035	9,257	78,292
2017	67,108	5,805	72,913
2018	<u>57,909</u>	<u>2,167</u>	<u>60,076</u>
	<u>\$ 261,606</u>	<u>\$ 29,759</u>	<u>\$ 291,365</u>

NOTE I - DEFINED BENEFIT PENSION PLAN

The Hospital participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing, multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et seq. Substantially all employees of the Hospital are eligible to participate in KPERS following completion of one year of service. KPERS provides retirement, life insurance, disability income, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S. Kansas Avenue, Topeka, Kansas 66603-3869) or by calling 1-888-275-5737.

K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4 percent of covered salary for employees hired prior to July 1, 2009, and 6 percent of covered salary for employees hired on or after July 1, 2009. The employer collects and remits member-employee contributions according to the provisions of Section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation.

LOGAN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2014 and 2013

NOTE I - DEFINED BENEFIT PENSION PLAN - Continued

KPERS is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The employer rates established by statute for calendar years 2014 and 2013 were 9.69 percent and 8.62 percent, respectively. The Hospital's employer contributions to KPERS for the years ended December 31, 2014 and 2013, were \$661,439 and \$548,336, respectively, equal to the statutory required contributions for each year.

NOTE J - CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of patient accounts receivable from patients and third-party payors is summarized as follows:

	<u>2014</u>	<u>2013</u>
Medicare	37.8%	42.3%
Medicaid	9.6	13.4
Blue Cross	11.8	10.3
Other insurers	13.1	9.0
Patients	<u>27.7</u>	<u>25.0</u>
	<u>100.0%</u>	<u>100.0%</u>

NOTE K - RISK MANAGEMENT

For the years ended December 31, 2014 and 2013, the Hospital was insured for professional liability under a comprehensive hospital liability policy provided by an independent insurance carrier with limits of \$200,000 per occurrence up to an annual aggregate of \$600,000 for all claims made during the policy year. The Hospital is further covered by the Kansas Health Care Stabilization Fund for claims in excess of its comprehensive hospital liability policy up to \$800,000 pursuant to any one judgment or settlement against the Hospital for any one party, subject to an aggregate limitation for all judgments or settlements arising from all claims made in the policy year in the amount of \$2,400,000. All coverage is on a claims-made basis. The above policies are currently in effect through January 1, 2016.

In addition to the risk disclosed elsewhere in these financial statements and notes thereto, the Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Hospital purchases commercial insurance for these risks. Settled claims have not exceeded this commercial coverage in any of the past three years.

LOGAN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2014 and 2013

NOTE L - RELATED PARTY TRANSACTION

The Hospital leases a medical office building in Colby, Kansas, from a member of the Board of Trustees, his wife, and his mother-in-law. Total rental expense for this lease during 2014 and 2013 was \$66,000 and \$76,667, respectively.

SUPPLEMENTARY INFORMATION

LOGAN COUNTY HOSPITAL
PATIENT SERVICE REVENUE
Year ended December 31,

	2014			2013		
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>
Acute care	\$ 367,644	\$ -	\$ 367,644	\$ 344,570	\$ -	\$ 344,570
Swing-bed skilled nursing care	593,304		593,304	566,872		566,872
Nursing facility care	2,058,614		2,058,614	2,107,670		2,107,670
Operating room		204,007	204,007		287,868	287,868
Anesthesiology	15,975	162,338	178,313	8,043	180,170	188,213
Radiology	73,221	692,413	765,634	75,142	685,464	760,606
Computerized tomography	55,066	558,868	613,934	82,960	546,242	629,202
Magnetic resonance imaging	3,299	251,512	254,811	4,763	250,999	255,762
Laboratory	338,798	2,638,442	2,977,240	337,131	2,830,963	3,168,094
Respiratory therapy	370,176	42,155	412,331	379,897	64,472	444,369
Physical therapy	227,913	987,283	1,215,196	243,750	978,654	1,222,404
Occupational therapy	82,585	30,992	113,577	94,371	17,952	112,323
Speech therapy	7,053	8,624	15,677	7,383	6,079	13,462
Electrocardiology	7,822	129,952	137,774	46,396	114,995	161,391
Medical and surgical supplies	159,388	179,986	339,374	133,949	209,631	343,580
Pharmacy	493,628	1,139,204	1,632,832	580,994	1,038,330	1,619,324
Observation	3,677	66,711	70,388	3,871	85,385	89,256
Emergency room	37,350	839,969	877,319	43,094	895,020	938,114
Physician fees		202,489	202,489	722	236,202	236,924
Endocrinology clinic		15,286	15,286		36,736	36,736
Cardiac rehabilitation		52,064	52,064		40,586	40,586
New Frontiers Health Services clinic		807,990	807,990		729,506	729,506
Colby Medical Services clinic		1,098,426	1,098,426		962,695	962,695
Total	<u>\$ 4,895,513</u>	<u>\$ 10,108,711</u>	15,004,224	<u>\$ 5,061,578</u>	<u>\$ 10,197,949</u>	15,259,527
Contractual adjustments			(3,486,462)			(4,377,779)
Medicaid disproportionate share payments			143,523			144,448
Provision for bad debts			(399,963)			(441,232)
Net patient service revenue			<u>\$ 11,261,322</u>			<u>\$ 10,584,964</u>

LOGAN COUNTY HOSPITAL
OTHER REVENUE
Year ended December 31,

	<u>2014</u>	<u>2013</u>
Apartment rental income	\$ 205,053	\$ 211,893
Cafeteria sales	31,869	31,141
Meals on wheels	27,224	27,028
Supply and drug sales to outsiders	17,338	17,824
Chart fees	661	1,339
Clinic rental income	169	1,015
Health Fair	27,176	24,687
Outsourced therapy services	31,444	28,290
Other	<u>107,059</u>	<u>85,548</u>
	<u>\$ 447,993</u>	<u>\$ 428,765</u>

LOGAN COUNTY HOSPITAL
EXPENSES BY FUNCTIONAL DIVISION
Year ended December 31,

	2014			2013		
	Salaries and wages	Supplies and other expense	Total	Salaries and wages	Supplies and other expense	Total
Nursing services	\$ 767,448	\$ 134,682	\$ 902,130	\$ 774,584	\$ 244,385	\$ 1,018,969
Nursing administration	219,316		219,316	194,099		194,099
Nursing facility services	1,508,122	413,029	1,921,151	1,427,730	432,579	1,860,309
Operating room	3,920	37,332	41,252	5,225	27,555	32,780
Anesthesiology		90,890	90,890		88,745	88,745
Radiology	131,986	158,285	290,271	126,778	168,436	295,214
Computerized tomography	6,821	74,847	81,668	6,476	69,339	75,815
Magnetic resonance imaging	810	65,147	65,957	660	57,387	58,047
Laboratory	228,979	384,207	613,186	187,458	378,935	566,393
Respiratory therapy	60,621	28,660	89,281	61,343	31,351	92,694
Physical therapy	546,263	42,153	588,416	551,858	35,635	587,493
Occupational therapy	52,610	24,421	77,031	44,010	26,728	70,738
Speech therapy		18,905	18,905		12,940	12,940
Electrocardiology		1,720	1,720			
Cardiac rehabilitation	34,874	29,077	63,951	33,783	13,787	47,570
Emergency	230,453	50,655	281,108	218,448	6,435	224,883
Medical and surgical supplies	79,502	42,866	122,368	72,005	74,732	146,737
Pharmacy	63,884	518,016	581,900	63,929	464,899	528,828
Employee benefits		1,943,263	1,943,263		1,781,875	1,781,875
Employee housing		3,684	3,684		3,577	3,577
Administration and general	617,463	561,061	1,178,524	546,772	596,635	1,143,407
Plant operation and maintenance	109,630	186,147	295,777	102,060	202,447	304,507
Laundry		1,053	1,053		702	702
Housekeeping	138,094	29,544	167,638	123,340	31,726	155,066
Dietary	149,723	101,022	250,745	134,750	102,258	237,008
Medical records	120,392	39,904	160,296	174,122	41,529	215,651
Social services	62,589	520	63,109	61,536	331	61,867
Apartments	23,453	18,310	41,763	27,332	7,028	34,360
New Frontiers Health Services clinic	1,192,131	126,286	1,318,417	943,416	221,530	1,164,946
Colby Medical Services clinic	707,401	196,527	903,928	742,557	276,701	1,019,258
Endocrinology clinic				73,856	7,680	81,536
Depreciation and amortization		453,889	453,889		422,237	422,237
Total	<u>\$ 7,056,485</u>	<u>\$ 5,776,102</u>	<u>\$ 12,832,587</u>	<u>\$ 6,698,127</u>	<u>\$ 5,830,124</u>	<u>\$ 12,528,251</u>